File

# ANNUAL REPORT 1970

HANDY ANDY

# HANDY ANDY COMPANY and subsidiary companies

| | |
|---|---|
| **Directors** | HYMAN FELDMAN |
| | DAVID D. FELDMAN |
| | BERNARD NAIMARK |
| | N. L. RAPPAPORT, Q.C. |
| | GEORGE WHELAN, Q.C. |
| | HENRY A. BRUNDAGE |
| | D. S. PATTERSON |
| | PAUL J. FELDMAN |
| | M. P. RUDICH, C.A. |
| **Officers** | HYMAN FELDMAN, President |
| | BERNARD NAIMARK, Executive Vice-President and General Manager |
| | N. L. RAPPAPORT, Q.C., Vice-President and General Counsel |
| | M. P. RUDICH, C.A., Secretary-Treasurer |
| **Transfer Agent and Registrar** | MONTREAL TRUST CO., Montreal, Toronto |
| **Bankers** | ROYAL BANK OF CANADA |
| **Auditors** | McDONALD, CURRIE & CO., Montreal, Canada |

# HANDY ANDY COMPANY and subsidiary companies

## REPORT TO THE SHAREHOLDERS

The Board of Directors of Handy Andy Company are pleased to submit this annual report of the Consolidated Operations and Financial Results of the Company for the year ended December 31, 1970.

1970 witnessed a major drop in consumer spending, brought about by high unemployment and economic and political uncertainty. During the year consumers' disposable income was restrained. To combat this reduction in consumer spending many companies embarked on a program of price cutting and discounting. The results of this reaction to the economic situation will no doubt be reflected in the profits earned by these companies.

In spite of the economic situation, during 1970 we were able to reverse the declining financial trend shown in our 1969 report, and we are pleased to note that consolidated operating profit increased to $43,086 (before taxes) compared to a loss of $543,546 in 1969.

Many internal actions of the Company are directly reflected in the profit shown. Careful budgeting by all executives of the Company coupled with strict internal controls have resulted in a significant reduction in our operating costs. During 1970 a number of unprofitable company-operated stores were closed upon the expiration of their long-term leases. The operating results for the year reflect the absorption of non-recurring expenditures in connection with the closing of these stores.

In the summer of 1970 we opened a company-owned auto-centre with complete service facilities in Ville LaSalle, Quebec. Although located in a competitive market area, this outlet was most successful for its first year of operation. We feel the success of this store indicates the confidence of the consumer in Handy Andy's ability to provide the finest in value, service and price.

In our Wholesale Division several smaller company-owned stores were converted to Dealer operations and five new Franchise Stores were added to our chain.

Your management firmly believes that the downward trend in our profit structure is behind us. We are confident that the many efforts and plans instituted in 1970 have strengthened the company's position. Major changes are contemplated for our merchandising program in 1971. More emphasis is planned for Advertising and Sales Promotion with strong and regular newspaper advertising, in-store displays, and consumer drawing activities.

Our moderate success in 1970 could not have been accomplished without the full and complete participation of all our employees, suppliers and associate dealers. We wish to take this opportunity to thank each and every one for their co-operation and efforts in the past year.

On behalf of the Board of Directors,

H. FELDMAN
President

Montreal, Quebec
March 17, 1971

HANDY ANDY

# CONSOLIDATED STATEMENT OF EARNINGS
for the year ended December 31, 1970

| | 1970 | 1969 |
|---|---|---|
| | $ | $ |
| SALES | 8,956,766 | 10,313,393 |
| COST OF SALES, SELLING, ADMINISTRATIVE AND FINANCIAL EXPENSES | 8,913,680 | 10,856,939 |
| | 43,086 | (543,546) |
| PROVISION FOR INCOME TAXES (note 8(a)) | 12,000 | |
| | 31,086 | (543,546) |
| MINORITY INTEREST | (2,287) | (384) |
| NET EARNINGS (LOSS) FOR THE YEAR (note 8) | 28,799 | (543,930) |
| NET EARNINGS (LOSS) PER SHARE | .08 | (1.43) |

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1970

| | 1970 | 1969 |
|---|---|---|
| | $ | $ |
| BALANCE—BEGINNING OF YEAR | 721,636 | 1,265,566 |
| Net earnings (loss) for the year | 28,799 | (543,930) |
| BALANCE—END OF YEAR (notes 6 and 7) | 750,435 | 721,636 |

**HANDY ANDY** COMPANY and subsidiary companies

# CONSOLIDATED BALANCE SHEET as at December 31, 1970

| Assets | Cost | Accumulated depreciation | 1970 | 1969 |
|---|---|---|---|---|
| | | | $ | $ |
| CURRENT ASSETS | | | | |
| Accounts receivable (note 2) | | | **1,441,578** | 1,481,594 |
| Merchandise inventory—at the lower of cost or net realizable value | | | **2,009,568** | 2,159,318 |
| Prepaid expenses | | | **99,584** | 62,946 |
| | | | **3,550,730** | 3,703,858 |
| OTHER ASSETS (note 3) | | | **249,328** | 194,118 |
| FIXED ASSETS | | | | |
| | $ | $ | | |
| Land | 133,497 | | **133,497** | 133,497 |
| Building | 38,980 | 5,559 | **33,421** | 35,180 |
| Furniture and equipment | 733,082 | 569,722 | **163,360** | 220,816 |
| Rolling stock | 45,230 | 35,166 | **10,064** | 14,816 |
| | 950,789 | 610,447 | **340,342** | 404,309 |
| Leasehold improvements—at cost less amortization | | | **179,840** | 196,676 |
| | | | **520,182** | 600,985 |
| | | | **4,320,240** | 4,498,961 |

SIGNED ON BEHALF OF THE BOARD:

Hyman Feldman, *Director*

Bernard Naimark, *Director*

## Liabilities

| | 1970 | 1969 |
|---|---|---|
| | $ | $ |
| CURRENT LIABILITIES | | |
| Bank advances (note 2) | 960,627 | 1,071,956 |
| Accounts payable and accrued liabilities | 1,058,561 | 1,056,012 |
| Income taxes | 12,000 | |
| Current portion of long-term debt | 59,000 | 50,500 |
| | 2,090,188 | 2,178,468 |
| LONG-TERM DEBT (note 4) | 500,000 | 605,000 |
| DEFERRED INCOME—unearned finance charges | 60,917 | 77,444 |
| MINORITY INTEREST (note 5) | 38,940 | 36,653 |
| | 2,690,045 | 2,897,565 |

## Shareholders' Equity

| | | |
|---|---|---|
| CAPITAL STOCK | | |
| Authorized— | | |
| 24,000 5% non-cumulative preferred shares of a par value of $10 each redeemable at par (note 6) | | |
| 1,000,000 common shares of a par value of $1 each | | |
| Issued and fully paid— | | |
| 380,810 common shares | 380,810 | 380,810 |
| CONTRIBUTED SURPLUS | 498,950 | 498,950 |
| RETAINED EARNINGS (notes 6 and 7) | 750,435 | 721,636 |
| | 1,630,195 | 1,601,396 |
| | 4,320,240 | 4,498,961 |

# CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

for the year ended December 31, 1970

| | 1970 | 1969 |
|---|---|---|
| SOURCE OF WORKING CAPITAL | $ | $ |
| Net earnings (loss) for the year | **28,799** | (543,930) |
| Items not affecting working capital— | | |
| Depreciation and amortization | **77,078** | 88,768 |
| Amortization of debenture discount | **4,833** | 4,833 |
| Amount written off fixed assets | **18,780** | |
| Finance charges taken into income | **(16,527)** | (13,579) |
| Gain on redemption of debentures | **(7,035)** | (1,040) |
| Provided from (applied to) operations | **105,928** | (464,948) |
| Repayment of non-interest bearing loan | **1,750** | 1,750 |
| Increase in minority interest | **2,287** | 384 |
| | **109,965** | (462,814) |
| USE OF WORKING CAPITAL | | |
| Increase in accounts receivable—long-term | **59,136** | 47,172 |
| Increase in cash surrender value of life insurance | **2,657** | 2,851 |
| Purchase of fixed assets—net | **15,055** | 80,755 |
| Repayment of and increase in current portion of long-term debt | **97,965** | 58,460 |
| | **174,813** | 189,238 |
| DECREASE IN WORKING CAPITAL | **64,848** | 652,052 |
| WORKING CAPITAL—BEGINNING OF YEAR | **1,525,390** | 2,177,442 |
| WORKING CAPITAL—END OF YEAR | **1,460,542** | 1,525,390 |

HANDY ANDY

# Notes to Consolidated Financial Statements

for the year ended December 31, 1970

## 1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies. The consolidated financial statements for 1969 were reported on by other auditors. Certain of the 1969 figures have been reclassified for comparative purposes.

## 2. SECURITY FOR BANK ADVANCES

Accounts receivable have been pledged as security for bank advances.

## 3. OTHER ASSETS

Other assets consist of the following:

| | 1970 $ | 1969 $ |
|---|---|---|
| 7½% second mortgage loan—receivable in 24 equal monthly instalments of $2,022 from April 1, 1971 to March 31, 1972 and from April 1, 1973 to March 31, 1974 | 48,533 | 48,533 |
| Non-interest bearing loan—receivable in annual instalments of $1,750 | 3,500 | 5,250 |
| Accounts receivable—long-term | 145,785 | 86,649 |
| Cash surrender value of life insurance | 31,368 | 28,711 |
| Debenture discount less amortization | 20,142 | 24,975 |
| | 249,328 | 194,118 |

## 4. LONG-TERM DEBT

(a) Long-term debt consists of the following:

| | 1970 $ | 1969 $ |
|---|---|---|
| 6¾% sinking fund debentures, Series "A" maturing March 1, 1975 | 529,000 | 595,500 |
| 7½% first mortgage repayable in annual instalments of $30,000 maturing April 19, 1971 | 30,000 | 60,000 |
| | 559,000 | 655,500 |
| *Less:* Current portion | 59,000 | 50,500 |
| | 500,000 | 605,000 |

(b) The amounts required to meet repayment requirements of the long-term debt over the next five years are as follows:

| | |
|---|---|
| 1971 | $ 59,000 |
| 1972 | 75,000 |
| 1973 | 75,000 |
| 1974 | 75,000 |
| 1975 | 275,000 |

## 5. MINORITY INTEREST

Minority interest is attributable to preferred and common shareholders of a subsidiary as follows:

| | 1970 $ | 1969 $ |
|---|---|---|
| Preferred | 37,408 | 36,123 |
| Common | 1,532 | 530 |
| | 38,940 | 36,653 |

## 6. CAPITAL STOCK

Of the 5% preferred shares 21,000 have previously been issued and redeemed. Accordingly, retained earnings includes an amount of $210,000 which is restricted under the provision of Section 45 of the Quebec Companies Act.

## 7. DIVIDEND RESTRICTION

The company has covenanted that so long as any Series "A" debentures are outstanding it will not declare or pay any dividends (other than stock dividends) on any of its capital stock or purchase for cancellation any of its capital stock (except from the net proceeds of the sale of the shares of the capital stock of the company) when the consolidated net current assets of the company and its subsidiaries (as defined in the trust agreement) are, or would thereby be, reduced below $2,000,000 or when the aggregate of capital and consolidated surplus (as defined in the trust agreement) is, or would thereby become, less than 150% of funded obligations of the company then outstanding.

## 8. INCOME TAXES AND NET EARNINGS FOR THE YEAR

(a) Income taxes provided for the year under review have been reduced because of the application of losses carried forward from previous years. The amount of income taxes which would otherwise be payable and the reduction resulting from prior years' losses may be summarized as follows:

| | |
|---|---|
| Earnings for the year before provision for income taxes and minority interest | $43,086 |
| Income taxes | 75,000 |
| Loss before extraordinary item and minority interest | 31,914 |
| Extraordinary item—<br>Reduction of current year's income taxes on application of losses in prior years. | 63,000 |
| Earnings before minority interest | 31,086 |
| Minority interest | 2,287 |
| Net earnings for the year | $28,799 |

**8. INCOME TAXES AND NET EARNINGS FOR THE YEAR (cont'd)**

(b) The Department of National Revenue is presently reviewing the operations of the companies, and has proposed a reassessment against a subsidiary in respect of transactions relating to the 1966 and 1967 years. It is the opinion of the company's tax counsel that the proposed reassessment has no merit. No provision has been made in the accompanying accounts for any taxes which may ultimately be payable as a result of the proposed reassessment.

(c) The company has losses for tax purposes of approximately $600,000 which are available to be applied against taxable income of future years, provided such income is earned not later than the years ending December 31:

| | |
|---|---|
| 1973 | $ 63,000 |
| 1974 | 465,000 |
| 1975 | 72,000 |

(d) As at December 31, 1970 the undepreciated capital cost of the fixed assets for tax purposes exceeded their net book value by approximately $192,000. This excess is available to the company and its subsidiaries to reduce taxable income of future years.

**9. ADDITIONAL INFORMATION**

The following amounts are included in the net earnings (loss) for the year:

| | 1970 $ | 1969 $ |
|---|---|---|
| Interest on long-term debt | 40,390 | 45,735 |
| Depreciation and amortization of fixed assets | 77,078 | 88,768 |
| Amortization of debenture discount | 4,833 | 4,833 |
| Gain on redemption of debentures | 7,035 | 1,040 |
| Directors' remuneration | 51,096 | 75,645 |

**10. LONG-TERM LEASES**

The company is committed under long-term leases which will require rental payment as follows:

| | Rental payments required $ | Receivable from sublessees $ |
|---|---|---|
| 1971–1975 | 1,959,000 | 722,000 |
| 1976–1980 | 1,604,000 | 59,000 |
| 1981–1985 | 1,336,000 | |
| 1986–1990 | 404,000 | |
| Subsequent | 28,000 | |

Certain of the company's locations have been sublet and payments are due from sublessees as indicated above.

# Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Handy Andy Company and its subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Subject to the effect of the matter described in note 8(b), in our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada
March 11, 1971

McDonald, Currie & Co.
*Chartered Accountants*

PRINTED IN CANADA
PLOW & WATTERS